

Central Intelligence Agency



Washington, D.C. 20505

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27 JAN 1984

DIRECTORATE OF INTELLIGENCE

MEMORANDUM FOR: Ambassador Jeane J. Kirkpatrick
US Permanent Representative to the
United Nations
US Mission to the United Nations

FROM : [REDACTED]
Director, Global Issues

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SUBJECT : Prospects for the North-South Dialogue

1. The attached memo analyzes the North-South issues we expect to be prominent during the coming year, especially at the June economic summit. [REDACTED]

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2. Please direct any questions or comments to the Chief, Third World Issues Branch [REDACTED]

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Attachment:

The North-South Dialogue:
Prospects for 1984
GI M-84-10013

[REDACTED]

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[REDACTED]

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OGI/ECD/TW: [REDACTED] (26 JAN 84)

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Washington, D.C. 20505

DIRECTORATE OF INTELLIGENCE

The North-South Dialogue: Prospects for 1984Summary

We believe the 10 year old stalemate in the North-South dialogue will continue in 1984. According to diplomatic reporting, the developing nations will maintain their demand for a New International Economic Order (NIEO), a proposal calling for the industrial countries to transfer a massive amount of resources to the Third World and greatly increase Third World power in the IMF and other international economic institutions. Embassy reporting indicates that the EC and Japan want to continue discussing the NIEO to demonstrate their concern for the Third World but still are unprepared to make substantial concessions on it. We expect the Soviet bloc to continue its rhetorical support for the NIEO but refuse to enter into North-South negotiations that involve the transfer of wealth. [redacted]

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North-South prospects would change dramatically if an unexpected default by a major debtor or an interruption in Persian Gulf oil shipments were to precipitate an international financial crisis. In that event, we believe the Third World could attempt to levy economic and political demands on the North as its price for cooperation in crisis management. [redacted]

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This paper was prepared by [redacted] Office of Global Issues. In the Directorate of Intelligence, it has been coordinated with the Offices of Central Reference, East Asian Analysis, European Analysis, and Near East and South Asian Analysis. Information available as of 3 January 1984 has been used. Comments and queries are welcome and may be addressed to the Chief, Third World Issues Branch, Economics Division, Office of Global Issues [redacted]

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GI M-84-10013

January 1984

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THE NORTH-SOUTH DIALOGUE: PROSPECTS FOR 1984

The 1984 North-South Agenda

We believe the developing countries will maintain their demand for a New International Economic Order (NIEO) despite their inability to make progress on it during the past decade. In our judgment, they will cling to the NIEO because it represents their vision of an egalitarian world order, unites them by consolidating all their economic demands into one proposal, and places principal blame for their economic difficulties on external rather than internal factors. We expect the developing countries to focus to varying degrees on four NIEO related issues in 1984: ratification of the Common Fund, the convocation of an international monetary conference, the launching of Global Negotiations, and the enactment of 39 "immediate measures" for reform of the UN's specialized agencies, particularly the IMF. [REDACTED]

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The Common Fund

In our judgment, the Common Fund will be a prominent issue in 1984. It obliges participating nations to make prorated financial contributions to a central body that would intervene in commodity markets in order to stabilize and increase the revenue developing countries earn from their commodity exports.¹ Ninety ratifications and direct capital contributions of \$313 million are needed for the Common Fund to become operative. As of late 1983, 110 countries, including the United States, had signed the agreement while 64 nations accounting for \$195 million in contributions had ratified.² According to State Department reporting, the countries that have ratified probably will meet in the spring of 1984 to set a deadline by which the agreement must either enter into force or be scrapped. The State Department predicts that enough new ratifications probably will be

¹ The Common Fund would embrace as many as 18 non-fuel commodities, five of which are already covered by price-stabilizing international commodity organizations. None of these organizations has demonstrated a willingness to associate with the Common Fund. [REDACTED]

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² The Common Fund also requires ratifying countries to contribute at least \$140 million to an aid fund that would provide technical assistance to the Third World commodity exporters. The aid fund already has more than \$140 million in pledges. [REDACTED]

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[redacted]

forthcoming to make the agreement's fate contingent on the United States, which is slated to make the largest capital contribution, \$74 million. [redacted]

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We expect the major industrial countries to press the United States at the June 1984 economic summit to ratify the Common Fund. In our judgment, the setting of a deadline in conjunction with the expected new ratifications will make the Common Fund a high-profile issue around the time of the summit. Four summit participants-- Japan, Great Britain, France and Canada-- have ratified the agreement while two others, West Germany and Italy, have begun ratification procedures. We believe our summit partners will see the Common Fund as an opportunity to enhance their image with the Third World. It has great symbolic value because it would be the first part of the NIEO to become operative and entails only modest expense, ranging from \$11 million in direct capital contributions for Canada to \$34 million for Japan. We expect Japan to take the lead in lobbying for the Common Fund at the summit. It played a similar role during UNCTAD VI, the North-South conference held in June 1983. According to embassy reporting, Tokyo sees its stand on the Common Fund as an important element in its relationship with Malaysia, the Philippines, and Indonesia which are supporters of the agreement. [redacted]

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An International Monetary Conference

At the March 1983 Nonaligned summit in New Delhi, the developing countries called for an international monetary conference to negotiate the financial parts of the NIEO. The conference would have universal participation and focus on reforming the IMF. However, it would not be held under the auspices of the IMF, which the industrial countries control through weighted voting. At the May 1983 Williamsburg economic summit, the seven major industrial countries, prompted by France, said that they would invite finance ministers from unspecified countries and the head of the IMF to consider the possibility of a high-level monetary conference. Subsequently India, the chairman of the Nonaligned Movement, publicly implored the industrial nations to enter into a dialogue with the developing countries on the organization of a monetary conference. The developing countries tried unsuccessfully at UNCTAD VI and the Fall 1983 UN General Assembly session to gain the industrial nations' approval for resolutions that incorporated language on a monetary conference from both the New Delhi and Williamsburg communiques. [redacted]

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We believe the developing countries will make a major effort in 1984 to initiate preparations for a monetary conference. We expect they will try to formulate a UN resolution that would commit the industrial nations to the convocation of a conference. Press reports

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[redacted]

already indicate that they have established a group of experts to work out the details of their proposal. We believe that at a minimum the developing countries hope to keep alive the idea of a conference and to be prepared with their own proposals should the industrial countries decide to hold high-level discussions on monetary reform.

[redacted]

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We doubt that a Third World proposal for a monetary conference will win significant support from the EC and Japan. The major industrial nations have made clear that discussion of a monetary conference must start in the IMF's Group of 10, which they dominate.

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[redacted] most industrial nations have little interest in a conference addressing their own monetary problems much less one focusing on Third World concerns. [redacted]

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[redacted] France is the only EC member interested in major monetary reform. An embassy cable reports that at the November 1983 Commonwealth summit, Great Britain rejected India's appeal for support on a monetary conference. The US embassy in Tokyo reports that Japan also opposes a conference. [redacted]

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Global Negotiations

We believe Global Negotiations, which the developing countries first proposed in 1979, will be a secondary issue in 1984. Global Negotiations calls for the Third World dominated UN General Assembly to issue recommendations on trade, aid, energy, commodities, and finance to the UN's specialized agencies, such as the IMF, the World Bank, and GATT. After the specialized agencies acted on the recommendations, the General Assembly would assess the agencies' follow-through. Thus, the developing countries could use the General Assembly to give impetus to their NIEO demands in the Western dominated specialized agencies. [redacted]

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The industrial and developing countries have been unable to agree on a General Assembly resolution that would launch Global Negotiations. In an attempt to break the impasse, the developing countries proposed at the Fall 1983 session of the General Assembly that Global Negotiations be separated into two stages. This approach would postpone discussion of the two thorniest issues, energy and finance, so that negotiation of the less controversial issues could commence. [redacted]

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We believe the prospects for Global Negotiations are dim. [redacted]
[redacted] the developing countries are divided on how to conduct discussions with the industrial nations on Global Negotiations. The US Mission to the United Nations reports that the developing countries have not offered

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details on how the two-stage approach would work and consequently negotiations have languished. [redacted] the October 1983 OECD North-South Group meeting suggests that even if the developing countries were unified, the industrial nations would not support the two-stage approach. [redacted]

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Immediate Measures

Diplomatic reporting indicates that the developing countries concluded at the March 1983 Nonaligned summit that Global Negotiations was unlikely to bring progress on the NIEO in the near future. Consequently, they formulated 39 "immediate measures" that they want to pursue in the IMF, the World Bank, GATT, and other UN specialized agencies. The measures are virtually identical to the NIEO demands and emphasize that the IMF and World Bank must quickly transfer financial resources to the developing countries to enable them to participate in the world economic recovery. The developing nations say that the immediate measures are meant to supplement not replace Global Negotiations. [redacted]

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We doubt the EC and Japan will urge the United States to consider the immediate measures. These proposals require substantial short-term resource transfers, and we have no evidence that any major industrial country is prepared to make them. The developing countries pressed for the immediate measures at UNCTAD VI and the September 1983 IMF/World Bank meetings, but the industrial nations refused to make substantive concessions on them. [redacted]

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The Soviet Union and the North-South Dialogue

The Soviet Union has used North-South forums to try to win Third World sympathy for its positions on East-West issues. At UNCTAD VI, for example, the Soviets claimed that the United States was diverting aid money into arms expenditures and that US sanctions on East-West trade were limiting their access to hard currency and thus curtailing their ability to aid the developing countries. The US delegation to the conference reported that the Soviet Union did not enhance its image with the developing countries by emphasizing East-West issues. [redacted]

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The Soviet Union is committed to bilateralism in its relations with developing countries and steadfastly refuses to enter into the types of multilateral agreements the Third World wants. For example:

- o It has not signed the Common Fund.
- o It has not established a generalized system of trade preferences for developing countries.

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- o It has declined to join any of the multilateral aid institutions. [redacted]

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The Soviet Union has endorsed the Third World's call for the NIEO but avoided participation in North-South negotiations that involve the transfer of wealth. Moscow uses forums such as UNCTAD and the UN Economic and Social Council to back the NIEO's assertion that Third World poverty is largely a result of colonialism and Western exploitation. It claims that as a noncolonial, socialist state, it bears no responsibility for the Third World's plight but nonetheless contributes much more of its national income to bilateral development assistance than any of the former colonial powers. The Western countries believe the Soviets exaggerate their foreign aid and channel most of it to Cuba, Vietnam and a few other client states. [redacted]

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In our opinion, the developing countries have discounted the Soviet Union as a factor in the North-South dialogue. We believe they have done so partly because the Soviet Union is not a member of the three international economic institutions they want to change most--the IMF, the World Bank, and GATT. Furthermore, the Soviet refusal to engage in multilateral trade and aid negotiations is so firm that we believe the developing countries doubt they can ever change Soviet policy. In our judgment, the developing countries occasionally will criticize the Soviet Union for not helping them more, as they did at UNCTAD VI, but will continue to fix virtually all of their attention on the United States, the EC, and Japan. [redacted]

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An International Financial Crisis: The Potential Wildcard

While we believe that continued stalemate will mark North-South discussions this year, a dramatically different alternative scenario cannot be ruled out. The whole tenor of North-South relations could shift markedly in the event of a financial crisis induced either by the default of a major debtor or by a major shock to the world economy sparked, for example, by an oil price runup caused by interruption of Persian Gulf oil supplies. We believe the Third World then might believe it had sufficient bargaining power to coerce the industrialized countries into making real concessions on the NIEO. [redacted]

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In 1973, the LDCs believed that they could join with the newly influential OPEC states and use Western nations' concern about oil supply and price stability to secure the economic and political concessions included in the NIEO. According to academic literature, the tactic failed principally because OPEC was neither willing nor able to use the leverage it had in 1973-1974 to help poorer Third

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[redacted]

World countries at the North-South bargaining table. We believe that in the event of international financial crisis precipitated by a debt default or world oil shortage, the LDCs could try again to link the NIEO with their cooperation in managing the crisis. [redacted]

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Unlike 1973, the Third World would not have to rely on a third party's negotiating strength. It may decide that the industrial countries would need the cooperation of Third World debtors to contain the serious economic and political dislocations an international financial crisis could cause. Third World states such as Nicaragua and Ecuador, which have already proposed unified action on debt, could raise that possibility again in an attempt to link Third World debt directly to economic and political concessions. Although, according to diplomatic reports, the major Third World debtors have repeatedly blocked these attempts to create a debtors' cartel, the more radical Third World states may believe that the industrial powers would be willing to grant concessions rather than risk adding more uncertainty in a time of financial crisis. We believe the major debtors such as Mexico, Brazil, and Argentina, with a greater stake in the financial system, are less likely to use the tactic, but they have not been presented with the dangers and opportunities a full-fledged international financial crisis would obviously present. Whether any individual or group of Third World states would actually have the ability to affect financial crisis management efforts would depend on the circumstances at the time. Nevertheless, whatever their actual ability proves to be, if they believe that they could secure any concessions after a decade of Northern rejection, they might be tempted to try. [redacted]

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ANNEX A

THIRD WORLD ORGANIZATIONS

The Nonaligned Movement (NAM) and the Group of 77 (G-77) are the principal Third World organizations that deal with North-South relations. The NAM has 101 members while the G-77 contains 125. Many Latin American countries, including Brazil, Mexico, and Venezuela, belong to the G-77 but not the NAM. [REDACTED]

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The NAM is characterized by a series of meetings and declarations. It does not possess a mechanism for translating its positions into action. The G-77 is responsible for conducting multilateral negotiations for the Third World in UN forums such as the General Assembly and UNCTAD. [REDACTED]

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The NAM meets at the head of state level every three years. These summits have generated many ideas, such as the New International Economic Order, that the G-77 has carried forward. The G-77 has never met at the summit level. [REDACTED]

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The NAM and the G-77 have different chairmen. The NAM, which chooses its chairman every three years, will be headed by India until 1986. The G-77, which selects its chairman yearly, will be headed by Mexico until October 1984. [REDACTED]

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ANNEX B

THIRD WORLD DECISIONMAKING

Decisions in the G-77 and the NAM usually are made through consensus. The process begins in meetings of the three regional groups--Latin America, Africa, and Asia. At this level compromises are made concerning the specific interests of the groups. Divergent interests are handled in two ways; either all sides give a little in the interest of Third World harmony or they arrive at a maximum common denominator i.e. the specific demands of the various parties are added together in a maximum proposal. [REDACTED]

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When the G-77 or the NAM meet in plenary session, the second round of negotiations begins. Again, compromises have to be reached that are acceptable to all, even if these compromises require renewed consultations within the regional groups. Formal records are not kept at this level and, according to a US scholar, discussions are open and frank. (U)

According to the aforementioned scholar, the G-77 frequently designates the hardliners from each regional group to negotiate with the industrial nations. This approach preserves G-77 unity but makes the group's positions rigid. [REDACTED]

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The G-77 has severely limited its flexibility in North-South negotiations by adhering to consensus decisionmaking. When countries exchange support for one another's positions within the group, the ensuing compromises often result in an aggregate of proposals that are presented to the industrial nations as a package. Subsequently, the G-77 is reluctant to tamper with the package lest group unity be damaged. In addition, the process of forming a consensus is time consuming because consensus is considered to exist only when no state takes formal exception to a proposal. As a consequence, the G-77 tends to avoid position changes that require a new consensus. [REDACTED]

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The G-77 generally follows a strategy of confrontation with the industrial nations and takes the offensive in negotiations. It develops programs, such as the NIEO, which it presents to the developed countries for consideration, and takes the initiative in calling for international meetings. Its proposals are often presented in the form of demands and may be supported by appeals to morality. Some US officials have characterized this strategy as unrealistic and unbusinesslike, but, as one US scholar pointed out, the group's behavior makes sense in the context of its lack of bargaining power. [REDACTED]

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ANNEX C

THE NEW INTERNATIONAL ECONOMIC ORDER

The New International Economic Order presumes that sustained economic growth in the developing countries can occur only through a massive North to South transfer of wealth and dramatically increased Third World power in international economic institutions. It focuses on reform in five areas: money, trade, commodities, aid and energy.

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Money

1. The IMF's system of tying a member's voting strength to its financial contribution should be altered so that the LDCs can have voting power commensurate with their numbers.

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3. The IMF should create large new quantities of Special Drawing Rights, a form of international liquidity, and allocate most of them to the developing countries.

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4. The IMF should relax the conditionality it attaches to its loans so as not to conflict with a member's national economic program.

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6. The IMF should use its loans to encourage expansion in domestic production rather than correcting balance of payments deficits.

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7. Stable exchange rates should be created through the use of target zones and guidelines supervised by the IMF.

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8. The IMF should expand its resources by borrowing from capital markets and linking increases in its quotas to growth in world trade and payments.

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Trade

1. Industrial countries should increase non-reciprocal trade preferences for the LDCs.

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2. The industrial countries should dismantle protectionist barriers to Third World exports.

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3. The industrial nations should phase out their aging industries so that LDCs can take them over.

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4. GATT and UNCTAD should engage in more joint activities and eventually merge.

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[REDACTED]

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Commodities

1. Enactment of the Common Fund. [REDACTED]

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2. Industrial nations should assist the LDCs to increase their participation in the processing, marketing, and distribution of their commodities. [REDACTED]

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3. An equitable relationship should be created between the prices of commodities the LDCs export to the industrialized countries and the prices of manufactured goods the LDCs import from the industrial countries. [REDACTED]

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Energy

1. The World Bank should establish an energy affiliate to finance Third World energy projects. [REDACTED]

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2. The industrial nations should transfer energy-related technology to the LDCs. [REDACTED]

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Aid

1. Industrial nations should donate 0.7 percent of their GNP to the LDCs in foreign aid; the aid should be assured, continuous, and automatic. [REDACTED]

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2. The World Bank should expand its lending capacity by increasing its capital subscriptions and doubling its gearing ratio. [REDACTED]

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[REDACTED]

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ANNEX D

North-South Negotiations 1973-1983

Although North-South discussions occurred in the 1950s and 60s, the North-South dialogue took its present form in 1973 when a Nonaligned summit conference called for the establishment of a "New International Economic Order" (NIEO). The Third World claimed that the industrial nations designed the existing order to maintain the existing international division of labor and thus perpetuate North-South inequality. The NIEO would give LDCs influence in international economic decisionmaking commensurate with their numbers. Its overriding objective would be to promote Third World economic growth via the large-scale transfer of resources from industrial to developing countries. [REDACTED]

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The developing countries believed their chances of acquiring economic power through political means increased dramatically when OPEC gained control over the price and supply of oil in 1973-1974. Energy-poor LDCs suffered from high oil prices, but they saw OPEC as a lever to extract concessions from the industrial countries on the NIEO. OPEC members, eager to maintain their Third World credentials, agreed to make discussions with the OECD on oil contingent on OECD willingness to simultaneously discuss the NIEO. [REDACTED]

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The developing countries brought their demand for a NIEO to the UN in the Spring of 1974 at the Sixth Special Session of the General Assembly. Debate between the industrial and developing nations was acrimonious and inconclusive. The session demonstrated, however, that OPEC would not permit energy discussions to be conducted independently from negotiations on the NIEO. [REDACTED]

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North-South relations moved from confrontation to negotiation in September 1975 at the Seventh Special Session of the UN General Assembly when the industrial nations agreed to integrated negotiations on the NIEO and oil. Although the industrial nations did not commit themselves to any substantive concessions, Third World expectations were high. [REDACTED]

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The effects of the Seventh Special Session were first tested at the fourth quadrennial meeting of the UN Conference on Trade and Development (UNCTAD IV) in 1976. Several countries, including the United States, offered proposals for North-South cooperation. The conference did not engage in serious negotiations, however, and produced nothing concrete. [REDACTED]

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[REDACTED]

The Conference on International Economic Cooperation (CIEC), which began in December 1975, sought to build on the spirit established at the Seventh Special Session. The conference, which took place outside UN auspices, consisted of eight industrial nations and 19 LDCs, seven of which were OPEC members. The industrial nations wanted assured oil supplies, a producer-consumer agency to manage oil, and protection against arbitrary increases in oil prices. The LDCs demanded the NIEO as a whole. The negotiations quickly stalemated and ended bitterly in June 1977. [REDACTED]

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The North-South dialogue stagnated after 1977. UNCTAD V, held in the spring of 1979, did nothing to break the stalemate. The conference, however, did expose friction between OPEC and non-oil LDCs. OPEC was unable to force progress on the NIEO and its refusal to discount oil prices for LDCs was retarding Third World growth. The LDCs directly criticized OPEC for the first time at UNCTAD V. [REDACTED]

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In September 1979, two OPEC members, Algeria and Iraq, attempted to revive the North-South dialogue by proposing Global Negotiations--a plan that would place discussions on oil and the NIEO back in the UN. Global Negotiations would enable the UN General Assembly, operating under special rules, to issue guidelines to the UN's specialized agencies and to create ad hoc forums to discuss issues such as energy that did not have corresponding specialized agencies. The industrial and developing nations agreed in December 1979 to a UN resolution launching Global Negotiations. [REDACTED]

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Discussions on Global Negotiations broke down in the spring of 1981. The LDCs wanted to empower the General Assembly to change decisions made by the specialized agencies. The industrial countries insisted that the General Assembly be limited to making recommendations. [REDACTED]

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The Cancun North-South summit, held in October 1981, attempted to break the impasse at the UN. After the conference both the LDCs and the industrial nations drafted UN resolutions for relaunching Global Negotiations. At their 1982 economic summit, the major industrial nations offered to accept the G-77 draft resolution if it were amended in four places. The key amendment proscribed the General Assembly from creating ad hoc forums that would duplicate work performed by the specialized agencies. The United States interpreted the amendment to mean that only an energy forum could be created. Some OPEC members, fearing isolation in an energy forum, compelled the G-77 to insist on multiple forums. There has been no progress since then. [REDACTED]

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